

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Pendleton County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
PENDLETON COUNTY FISCAL COURT

June 30, 2005

Peercy and Gray, PSC has completed the audit of the Pendleton County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Pendleton County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pendleton County's major federal programs, Community Development Block Grant – West Pendleton Water Main Extensions CFDA #14.228 and the State Domestic Preparedness CFDA# 97.004.

Financial Condition:

The fiscal court had net assets of \$3,703,860 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,590,423 in its governmental activities as of June 30, 2005, with total net assets of \$3,701,023. In its enterprise fund, total net cash and cash equivalents were \$2,837 with total net assets of \$2,837. The fiscal court had total debt principal as of June 30, 2005 of \$1,299,688 with \$152,790 due within the next year.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
PENDLETON COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	17
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	20
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	24
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	28
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	33
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	37
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	41
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	45
NOTES TO FINANCIAL STATEMENTS.....	47
BUDGETARY COMPARISON SCHEDULES	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	64
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	66
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	70
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	75
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	79
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	81
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	85
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	89
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pendleton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pendleton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2005 on our consideration of Pendleton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
December 16, 2005

PENDLETON COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Henry W. Bertram	County Judge/Executive
Jack Sumpter	Magistrate
Gary Veirs	Magistrate
Stacey Wells	Magistrate
Paul Dickison	Magistrate

Other Elected Officials:

C. Donald Wells	County Attorney
Gary Hutchinson	Jailer
Rita Spencer	County Clerk
Mike Redden	Circuit Court Clerk
Lark O' Hara	Sheriff
John Steele	Property Valuation Administrator
John Peoples	Coroner

Appointed Personnel:

Vicky King	County Treasurer
Sylvia McClanahan	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY



Commonwealth of Kentucky

Magistrates

Paul Dickison

Jack Sumpter

Henry W. Bertram

Pendleton County Judge/Executive

233 Main St. Room 4

Falmouth, Kentucky 41040

Ph (859) 654-4321 Fax (859) 654-5047

pendjud@fuse.net

www.pendletoncountky.org

Magistrates

Gary Veirs

Stacey Wells

Management's Discussion and Analysis June 30, 2005

The financial management of Pendleton County, Kentucky offers readers of Pendleton County's financial statements this narrative overview and analysis of the financial activities of Pendleton County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Pendleton County had net assets of \$3,703,860 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,590,423 in its governmental activities as of June 30, 2005. In its enterprise fund, cash and cash equivalents were \$2,837 with total assets of \$2,837. Total debt principal as of June 30, 2005 was \$1,299,688 with \$152,790 due within one year.
- The government's total net assets increased by \$494,140 from the prior year. This increase is primarily due to the additions of the county's infrastructure assets.
- At the close of the current fiscal year, Pendleton County's balance sheet reported a fund balance of \$2,590,423.
- Pendleton County's total indebtedness at the close of fiscal year June 30, 2005 was \$1,299,688 of which \$1,146,898 is long-term debt (due after 1 year) and \$152,790 is short-term debt (to be paid within 1 year). Debt reductions were \$147,238 for a net decrease of \$147,238 during the year.
- In addition Pendleton County purchased equipment for the Road Department, County Offices, The Emergency Operations Center, County Dispatch and the Ambulance Department in the amount of \$147,617. Several county roads were blacktopped at a cost to the county of \$346,132. The county also purchased three county vehicles at a total cost of \$13,300.

Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)

- Pendleton County was awarded a grant in the amount of \$380,993 from the office of Home Land Security in order to install a Radio System that will reduce black out areas for law enforcement throughout Pendleton County. A grant in the amount of \$393,972 was awarded to Pendleton County to be used as pass through funds to enhance equipment and supplies for the Northern Kentucky Regional Hazmat team. Pendleton County received a grant in the amount of \$30,000 to be used to enlarge the current animal shelter. This grant has run into some difficulties due to engineering requirements. The Fiscal Court received \$24,177 in litter abatement funds to be used to clean up litter from state and county roads.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Pendleton County's basic financial statements. Pendleton County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of Pendleton County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Pendleton County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pendleton County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Government-wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Pendleton County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has one business type activity - the operation of a jail canteen, which is inactive at this time.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pendleton County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Pendleton County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pendleton County maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and LGEA Fund all of which are considered major funds by the County. The Jail Fund, Ambulance Fund, JAIBG Fund, 911 Fund, Microenterprise Fund, Mental Health Fund and CDBG Fund are considered non-major funds and are represented in a combined form.

Pendleton County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1

Pendleton County Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	\$ 2,564,628	\$ 2,590,423	\$ 2,828	\$ 2,837	\$ 2,567,456	\$ 2,593,260
Capital assets	2,089,190	2,410,288			2,089,190	2,410,288
Total Assets	4,653,818	5,000,711	2,828	2,837	4,656,646	5,003,548
Liabilities						
Current liabilities	132,762	152,790			132,762	152,790
Long-term liabilities	1,314,164	1,146,898			1,314,164	1,146,898
Total Liabilities	1,446,926	1,299,688			1,446,926	1,299,688
Net Assets						
Invested in capital assets, net of related debt	642,264	1,110,600			642,264	1,110,600
Restricted			2,828	2,837	2,828	2,837
Unrestricted	2,564,628	2,590,423			2,564,628	2,590,423
Total Net Assets	\$ 3,206,892	\$ 3,701,023	\$ 2,828	\$ 2,837	\$ 3,209,720	\$ 3,703,860

Changes in Net Assets

Governmental Activities. Pendleton County's net assets increased by \$494,131 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash increased by \$25,795.
- Investment in capital assets, net of related debt increased \$468,336 primarily due to additions in infrastructure assets and other capital assets.
- Current and long-term liabilities decreased by \$147,238.
- Revenues were \$5,289,067 as reflected in the Statement of Activities.
- Expenditures totaled \$4,794,936 as reflected in the Statement of Activities.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Changes in Net Assets (Continued)

Business-type Activities. Pendleton County's net assets increased by \$9 in fiscal year 2005. Key elements of this are as follows:

- Interest earned on checking account

Table 2

Pendleton County Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Program Revenues:						
Charges for Services	\$ 399,158	\$ 362,091			\$ 399,158	\$ 362,091
Operating Grants and Contributions	926,879	1,690,421			926,879	1,690,421
Capital Grants and Contributions	242,814	1,787,374			242,814	1,787,374
Total Program Revenues	3,754,185	3,839,886			3,754,185	3,839,886
General Revenues						
Taxes	1,124,768	1,184,497			1,124,768	1,184,497
Excess Fees	70,526	63,380			70,526	63,380
Unrestricted Investment Earnings	49,877	79,729	5	9	49,882	79,738
Miscellaneous Revenues	134,418	121,575			134,418	121,575
Total General Revenues	1,379,589	1,449,181	5	9	1,379,594	1,449,190
Total Revenues	5,133,774	5,289,067	5	9	5,133,779	5,289,076
Program Expenses:						
General Government	964,242	1,069,000			964,242	1,069,000
Protection to Persons and Property	1,697,965	1,561,557			1,697,965	1,561,557
General Health and Sanitation	1,048,818	1,437,252			1,048,818	1,437,252
Social Services	26,555	23,572			26,555	23,572
Recreation and Culture	103,924	75,739			103,924	75,739
Roads	623,730	573,421			623,730	573,421
Airports	5,000				5,000	
Debt Service	95,069	53,367			95,069	53,367
Capital Projects	19,794	1,028			19,794	1,028
Total Expenses	4,585,097	4,794,936			4,585,097	4,794,936
Change in Net Assets	548,677	494,131	5	9	548,682	494,140
Net Assets-Beginning (Restated)	2,658,215	3,206,892	2,823	2,828	2,661,038	3,209,720
Net Assets-Ending	\$3,206,892	\$3,701,023	\$2,828	\$2,837	3,209,720	3,703,860

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds

As noted earlier, Pendleton County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Pendleton County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County governmental funds was \$2,590,423. 93.7% of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$163,520) is reserved to indicate that it is not available for new spending because it is committed.

The County has 3 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) LGEA Fund. There are 7 non-major funds. They are the Jail Fund, Ambulance Fund, Emergency 911 Fund, JAIBG Fund, Microcenter Fund, Mental Health Mental Retardation Fund, and the CDBG Fund.

1. The General Fund is the chief operating fund of Pendleton County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$810,694. The county received \$562,997 in Real Property tax revenues. This accounts for approximately 25% of the general fund revenue. \$114,806 was received from Motor Vehicle taxes and accounts for approximately 5% of the county's general fund revenues. Various other taxes and service fees make up the remaining 70% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$661,365 in fund balance at June 30, 2005. The fiscal year 2005 expenditures for road projects were \$888,672.
3. The LGEA Fund had a fund balance of \$918,627; this includes Debt Reserve CD's in the amount of \$674,516.
4. The CDBG Fund is used to account for federal monies received and had a fund balance of \$0. The county received \$384,251 in federal funds for ongoing projects.
5. The Jail Fund had a fund balance at June 30, 2005 of \$19,583. The General Fund contributed \$306,600 to the jail operations. Total revenue received in the Jail Fund was \$53,680.
6. The Ambulance Fund was created to provide ambulance service to the residents of Pendleton County. The Fund had a fund balance of \$21,642 at the end of the fiscal year. Total expenditures for the Ambulance fund were \$332,007 while total revenue was \$245,379, transfers to support the ambulance fund was \$70,000 coming from the LGEA Fund.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds (Continued)

7. The Emergency 911 Dispatch Fund accounts for the operation of the County's emergency operations communications. It is supported primarily from 911 Telephone tax, and total revenues were \$231,992. The Fund had a fund balance of \$24,721 at the end of the June 30, 2005 fiscal year.
8. The Microcenter Fund was set up to receive federal monies related to Economic Development. The Fund received and expended \$29,646 during the Fiscal Year ended June 30, 2005.
9. The Mental Health/Mental Retardation Fund had a fund balance of \$43,390 at the end of the Fiscal Year. The only source of revenue for the Fund is Property Tax and Motor Vehicle Tax.
10. The JAIBG Fund derives its revenues from a federal grant and county match funds. The fund has a balance of \$0 as of June 30, 2005.

Proprietary Funds Overview The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Pendleton County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had a cash balance of \$2,837. This money has been in this account since the closing of the Jail in October 2000 and has been earning interest.

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$309,302. Budget amendments were made to all areas due to surplus cash carried forward.

Actual operating revenues were \$161,105 less than amount originally budgeted by Fiscal Court. This decrease was primarily due to anticipated revenues from intergovernmental sources.

Actual operating expenditures were \$977,617 less than amount originally budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets. Pendleton County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$2,410,288 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2005 fiscal year included the resurfacing of various county roads, purchasing equipment for county road department, county offices, emergency operations center, county dispatch and county ambulance service.

Additional information on the County's capital assets can be found in Note 3 of this report.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Capital Assets and Debt Administration (Continued)

Table 3

Pendleton County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 107,548	\$ 107,548			\$ 107,548	\$ 107,548
Buildings	615,872	587,000			615,872	587,000
Vehicles	387,456	385,026			387,456	385,026
Equipment	262,297	332,217			262,297	332,217
Infrastructure	716,017	998,497			716,017	998,497
	<u>\$ 2,089,190</u>	<u>\$ 2,410,288</u>			<u>\$ 2,089,190</u>	<u>\$ 2,410,288</u>

Long-Term Debt. At the end of the 2005 fiscal year, Pendleton County had total long-term debt outstanding of \$1,299,688. The amount of this debt due within the next year is \$152,790 and \$1,146,898 is due in subsequent years. This debt is for the Pendleton County Water District Building, the County Garage and waterline extensions. This debt is described in Note 5 of the notes to the financial statements.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- Since 2001 the mining severance revenue has been on the decline due to production and to changes made in figuring the severance tax as it relates to mining transportation cost. The revenue received from mineral severance is an extremely unpredictable revenue source.
- The lack of a state budget and the financial condition of state revenues may continue to jeopardize county projects and county programs that are state mandated. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.
- The need to bring Advance Life Support Services into Pendleton County prompted the implementation of a county wide occupational tax. The revenue this tax is expected to generate is approximately \$250,000 to be used for the purpose of providing Advance Life Support service to the residents of Pendleton County.

**Pendleton County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Requests For Information

This financial report is designed to provide a general overview of Pendleton County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Pendleton County Treasurer, 233 Main Street, Falmouth, KY 41040.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,590,423	\$ 2,837	\$ 2,593,260
Total Current Assets	<u>2,590,423</u>	<u>2,837</u>	<u>2,593,260</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	107,548		107,548
Buildings	587,000		587,000
Other Equipment	332,217		332,217
Vehicles and Equipment	385,026		385,026
Infrastructure Assets - Net of Depreciation	<u>998,497</u>		<u>998,497</u>
Total Noncurrent Assets	<u>2,410,288</u>		<u>2,410,288</u>
Total Assets	<u>5,000,711</u>	<u>2,837</u>	<u>5,003,548</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	152,790		152,790
Noncurrent Liabilities:			
Financing Obligations	<u>1,146,898</u>		<u>1,146,898</u>
Total Liabilities	<u>1,299,688</u>		<u>1,299,688</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 1,110,600	\$	\$ 1,110,600
Restricted		2,837	2,837
Unrestricted	<u>2,590,423</u>		<u>2,590,423</u>
Total Net Assets	<u>\$ 3,701,023</u>	<u>\$ 2,837</u>	<u>\$ 3,703,860</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,069,000	\$ 127,880	\$ 145,666	\$ 29,646
Protection to Persons and Property	1,561,557	234,211	427,086	440,568
General Health and Sanitation	1,437,252		67,130	1,317,160
Social Services	23,572			
Recreation and Culture	75,739			
Roads	573,421		1,050,539	
Debt Service	53,367			
Capital Projects	1,028			
Total Governmental Activities	4,794,936	362,091	1,690,421	1,787,374
Business-type Activities:				
Jail Canteen				
Total Business-type Activities				
Total Primary Government	\$ 4,794,936	\$ 362,091	\$ 1,690,421	\$ 1,787,374

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Miscellaneous Revenues
 Interest Received

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (765,808)	\$	\$ (765,808)
(459,692)		(459,692)
(52,962)		(52,962)
(23,572)		(23,572)
(75,739)		(75,739)
477,118		477,118
(53,367)		(53,367)
(1,028)		(1,028)
(955,050)		(955,050)
(955,050)		(955,050)
562,997		562,997
64,574		64,574
114,806		114,806
442,120		442,120
63,380		63,380
121,575		121,575
79,729	9	79,738
1,449,181	9	1,449,190
494,131	9	494,140
3,206,892	2,828	3,209,720
\$ 3,701,023	\$ 2,837	\$ 3,703,860

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Local Government Economic Assistance Fund
ASSETS			
Cash and Cash Equivalents	\$ 901,095	\$ 661,365	\$ 918,627
Total Assets	<u>\$ 901,095</u>	<u>\$ 661,365</u>	<u>\$ 918,627</u>
FUND BALANCES			
Reserved for:			
Encumbrances	\$ 90,401	\$ 2,136	\$ 69,443
Unreserved:			
General Fund	810,694		
Special Revenue Funds		659,229	849,184
Total Fund Balances	<u>\$ 901,095</u>	<u>\$ 661,365</u>	<u>\$ 918,627</u>

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
<u>\$ 109,336</u>	<u>\$ 2,590,423</u>
<u>\$ 109,336</u>	<u>\$ 2,590,423</u>

\$ 1,540 \$ 163,520

810,694
107,796 1,616,209

\$ 109,336 \$ 2,590,423

Reconciliation to the Statement of Net Assets:

Total Fund Balances	\$ 2,590,423
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	3,193,145
Accumulated Depreciation	(782,857)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(1,299,688)</u>
Net Assets Of Governmental Activities	<u>\$ 3,701,023</u>

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Local Government Economic Assistance Fund
REVENUES			
Taxes	\$ 875,676	\$	\$
Excess Fees	63,380		
Licenses and Permits	10,062		
Intergovernmental	1,078,575	1,050,539	815,149
Charges for Services	127,880		
Miscellaneous	103,119	4,863	13,099
Interest	30,525	19,943	25,775
Total Revenues	<u>2,289,217</u>	<u>1,075,345</u>	<u>854,023</u>
EXPENDITURES			
General Government	408,870		62,586
Protection to Persons and Property	3,399		682,650
General Health and Sanitation	916,188		23,000
Social Services	1,400		16,480
Recreation and Culture	47,078		28,661
Roads		888,672	25
Debt Service	26,888		161,144
Capital Projects	1,028	12,200	
Administration	406,726	71,980	1,909
Total Expenditures	<u>1,811,577</u>	<u>972,852</u>	<u>976,455</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>477,640</u>	<u>102,493</u>	<u>(122,432)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	70,000		
Transfers To Other Funds	(306,600)	(70,000)	(70,000)
Total Other Financing Sources (Uses)	<u>(236,600)</u>	<u>(70,000)</u>	<u>(70,000)</u>
Net Change in Fund Balances	241,040	32,493	(192,432)
Fund Balances - Beginning (Restated)	660,055	628,872	1,111,059
Fund Balances - Ending	<u>\$ 901,095</u>	<u>\$ 661,365</u>	<u>\$ 918,627</u>

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 298,759	\$ 1,174,435
	63,380
	10,062
533,532	3,477,795
234,211	362,091
494	121,575
3,486	79,729
<u>1,070,482</u>	<u>5,289,067</u>
29,646	501,102
885,783	1,571,832
497,752	1,436,940
5,692	23,572
	75,739
	888,697
	188,032
	13,228
83,515	564,130
<u>1,502,388</u>	<u>5,263,272</u>
<u>(431,906)</u>	<u>25,795</u>
376,600	446,600
	(446,600)
<u>376,600</u>	
(55,306)	25,795
164,642	2,564,628
<u>\$ 109,336</u>	<u>\$ 2,590,423</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities :

Net Change in Fund Balances - Total Governmental Funds	\$	25,795
--	----	--------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		507,049
Depreciation Expense		(185,951)

Long-term debt principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments		147,238
--	--	---------

Change in Net Assets of Governmental Activities	\$	494,131
---	----	---------

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

PENDLETON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 2,837
Total Current Assets	<u>2,837</u>
 Total Assets	 <u>2,837</u>
 Net Assets	
Restricted	2,837
Total Net Assets	<u><u>\$ 2,837</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Nonoperating Revenues (Expenses)	
Interest Income	\$ 9
Total Nonoperating Revenues (Expenses)	<u>9</u>
Change In Net Assets	9
Total Net Assets - Beginning	<u>2,828</u>
Total Net Assets - Ending	<u><u>\$ 2,837</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PENDLETON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Investing Activities	
Interest Earned	\$ 9
Net Cash Provided By	
Investing Activities	9
Net Increase (Decrease) in Cash and Cash	
Equivalents	9
Cash and Cash Equivalents - July 1, 2004	2,828
Cash and Cash Equivalents - June 30, 2005	\$ 2,837

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	47
NOTE 2.	CUSTODIAL CREDIT RISK-DEPOSITS	52
NOTE 3.	CAPITAL ASSETS.....	53
NOTE 4.	SHORT-TERM DEBT.....	54
NOTE 5.	LONG-TERM DEBT	54
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	56
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	56
NOTE 8.	DEFERRED COMPENSATION	57
NOTE 9.	INSURANCE	57
NOTE 10.	PRIOR PERIOD ADJUSTMENT.....	57

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable; if applicable, are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pendleton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the criteria stated in GASB 14 and 39, there are no component units, which merit consideration as part of the reporting entity.

C. Pendleton County Elected Officials Not Part Of Pendleton County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Pendleton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pendleton County, Kentucky.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Pendleton County Elected Officials Not Part Of Pendleton County, Kentucky (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Jail Fund, Ambulance Fund, JAIBG Fund, Emergency 911 Fund, Micro-center Fund, Mental Health/Mental Retardation Fund, and Community Development Block Grant Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Jail Fund, Ambulance Fund, JAIBG Fund, Emergency 911 Fund, Micro-center Fund, Mental Health/Mental Retardation Fund, and Community Development Block Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. This is an idle fund because Pendleton County no longer operates a full service jail.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	N/A
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Infrastructure	\$ 20,000	10-50

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pendleton County Fiscal Court: Pendleton County Water District, East Pendleton Water District, West Pendleton Water District, Airport Board, Conservation District and Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Pendleton County Fiscal Court: Parks and Recreation Agency is a joint venture among Pendleton County, the City of Falmouth, the City of Butler and the Pendleton County School. The Planning Commission is a joint venture among Pendleton County, the City of Falmouth and the City of Butler. The Northern Kentucky Regional Hazmat – WMD Response Unit, Inc. is a joint venture among Pendleton, Boone, Campbell, Carroll, Gallatin, Grant, Kenton, Owen and Scott Counties.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The county does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 107,548	\$	\$	\$ 107,548
Total Capital Assets Not Being Depreciated	107,548			107,548
Capital Assets, Being Depreciated:				
Buildings	746,527			746,527
Vehicles	619,022	13,300		632,322
Equipment	461,022	147,617		608,639
Infrastructure	751,977	346,132		1,098,109
Total Capital Assets Being Depreciated	2,578,548	507,049		3,085,597
Less Accumulated Depreciation For:				
Buildings	(130,655)	(28,872)		(159,527)
Other Equipment	(231,566)	(44,856)		(276,422)
Vehicles and Equipment	(198,725)	(48,571)		(247,296)
Infrastructure	(35,960)	(63,652)		(99,612)
Total Accumulated Depreciation	(596,906)	(185,951)		(782,857)
Total Capital Assets, Being Depreciated, Net	1,981,642	321,098		2,302,740
Governmental Activities Capital Assets, Net	\$ 2,089,190	\$ 321,098	\$ 0	\$ 2,410,288

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 7,233
Protection to Persons and Property	68,400
General Health and Sanitation	2,112
Roads, Including Depreciation of General Infrastructure Assets	<u>108,206</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 185,951</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 4. Short-term Debt

In July 2004, Pendleton County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,789,200, with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky advance Revenue Program of \$5,495.

Note 5. Long-term Debt

A. Water District Financing Obligation

On April 3, 1997, Pendleton County entered into a twenty-year agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the financing and purchase of a 3,700 square foot commercial and office building and land for the Pendleton County Water District. Interest is paid on a monthly basis, and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 5,000	\$ 4,968
2007	5,000	4,649
2008	5,000	4,330
2009	6,000	3,985
2010	6,000	3,602
2011-2015	35,000	11,759
2016-2017	18,000	1,307
Totals	<u>\$ 80,000</u>	<u>\$ 34,600</u>

The Pendleton County Fiscal Court subsequently entered into a sublease with the Pendleton County Water District for the building and land. As of fiscal year end, the Water District was in substantial compliance with the terms of the sublease agreement.

B. Financing Obligations with Finance and Administration Cabinet

On February 20, 2003, the Pendleton County Fiscal Court entered into an agreement with the Secretary of the Finance Administration Cabinet to purchase a state maintenance garage to house the county road department. Principal is paid annually in the amount of \$12,200. The following table shows future principal payment requirements.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

B. Financing Obligation with Finance and Administration Cabinet (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>
2006	\$ 12,200
2007	12,200
2008	12,200
2009	12,200
2010	12,200
2011-2013	24,400
Totals	<u>\$ 85,400</u>

C. Waterline Extensions Financing Obligation

The Pendleton County Fiscal Court entered into an agreement with Fifth Third Bank to refinance the Pendleton County Public Properties Corporation issued bonds, Certificate of Participation Series 1993. The amount refinanced totaled \$1,511,456. This included principal of \$1,450,000 and refinancing charges of \$61,456. Pendleton County principal payments are due December 1 and June 1 of each year through June 1, 2013. Interest is 3.8% and is payable each December 1 and June 1. The following table shows future principal payment requirements.

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 120,058	\$ 41,308
2007	124,728	36,638
2008	129,496	31,870
2009	134,617	26,749
2010	139,853	21,512
2011-2013	453,243	31,072
Totals	<u>\$ 1,101,995</u>	<u>\$ 189,149</u>

D. Sheriff's Vehicles

On February 11, 2004 Pendleton County entered into a three-year agreement with Farmers Bank & Capital Trust Company for the financing and purchase of two Sheriff's vehicles. Fiscal Court budgets and pays for most of this expenditure, with the Sheriff's department paying the remainder. Principal and interest payments are made annually as shown in the following table.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

D. Sheriff's Vehicles (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 15,532	\$ 1,442
2007	16,761	213
Totals	<u>\$ 32,293</u>	<u>\$ 1,655</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 1,446,926	\$	\$ 147,238	\$ 1,299,688	\$ 152,790
Governmental Activities					
Long-term Liabilities	<u>\$ 1,446,926</u>	<u>\$ 0</u>	<u>\$ 147,238</u>	<u>\$ 1,299,688</u>	<u>\$ 152,790</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$53,367 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)

Note 8. Deferred Compensation

Pendleton County Fiscal Court voted allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Pendleton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustment

Beginning net assets has been restated by \$46,231 from \$3,253,123 to \$3,206,892 because \$46,984 in liabilities and \$753 in cash were previously not recorded. Also, the beginning fund balance in the General Fund was restated because \$753 in cash was previously not recorded.

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 730,400	\$ 730,400	\$ 875,676	\$ 145,276
Excess Fees	59,689	59,689	63,380	3,691
Licenses and Permits	6,900	6,900	10,062	3,162
Intergovernmental Revenue	1,325,683	1,325,683	1,078,575	(247,108)
Charges for Services	212,100	212,100	127,880	(84,220)
Miscellaneous	107,550	107,550	103,119	(4,431)
Interest	8,000	8,000	30,525	22,525
Total Revenues	<u>\$ 2,450,322</u>	<u>\$ 2,450,322</u>	<u>\$ 2,289,217</u>	<u>\$ (161,105)</u>
EXPENDITURES				
General Government	443,356	493,582	408,870	84,712
Protection to Persons and Property	3,650	17,365	3,399	13,966
General Health and Sanitation	1,278,179	1,278,179	916,188	361,991
Social Services	4,700	4,700	1,400	3,300
Recreation and Culture	247,000	247,000	47,078	199,922
Debt Service	10,500	10,500	26,888	(16,388)
Capital Projects	5,000	5,000	1,028	3,972
Administration	487,507	732,868	406,726	326,142
Total Expenditures	<u>\$ 2,479,892</u>	<u>\$ 2,789,194</u>	<u>\$ 1,811,577</u>	<u>\$ 977,617</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(29,570)</u>	<u>(338,872)</u>	<u>477,640</u>	<u>816,512</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	70,000	70,000	70,000	
Transfers To Other Funds	(390,430)	(390,430)	(306,600)	83,830
Total Other Financing Sources (Uses)	<u>\$ (320,430)</u>	<u>\$ (320,430)</u>	<u>\$ (236,600)</u>	<u>\$ 83,830</u>
Net Changes in Fund Balance	(350,000)	(659,302)	241,040	900,342
Fund Balance - Beginning	<u>350,000</u>	<u>659,302</u>	<u>660,055</u>	<u>753</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 901,095</u>	<u>\$ 901,095</u>

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 796,282	\$ 796,282	\$ 1,050,539	\$ 254,257
Miscellaneous	5,200	5,200	4,863	(337)
Interest	15,000	15,000	19,943	4,943
Total Revenues	<u>\$ 816,482</u>	<u>\$ 816,482</u>	<u>\$ 1,075,345</u>	<u>\$ 258,863</u>
EXPENDITURES				
Roads	\$ 731,682	\$ 1,273,537	\$ 888,672	\$ 384,865
Capital Projects	12,200	12,200	12,200	
Administration	87,600	89,617	71,980	17,637
Total Expenditures	<u>\$ 831,482</u>	<u>\$ 1,375,354</u>	<u>\$ 972,852</u>	<u>\$ 402,502</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(558,872)</u>	<u>102,493</u>	<u>661,365</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(70,000)	(70,000)	(70,000)	
Total Other Financing Sources (Uses)	<u>\$ (70,000)</u>	<u>\$ (70,000)</u>	<u>\$ (70,000)</u>	<u>\$ 0</u>
Net Changes in Fund Balance	(85,000)	(628,872)	32,493	661,365
Fund Balance - Beginning	<u>85,000</u>	<u>628,872</u>	<u>628,872</u>	
Fund Balance - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 661,365</u></u>	<u><u>\$ 661,365</u></u>

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 650,500	\$ 1,425,465	\$ 815,149	\$ (610,316)
Miscellaneous	1,000	3,750	13,099	9,349
Interest	6,000	6,000	25,775	19,775
Total Revenues	657,500	1,435,215	854,023	(581,192)
EXPENDITURES				
General Government	\$ 32,000	\$ 62,650	\$ 62,586	64
Protection to Persons and Property	295,210	1,189,399	682,650	506,749
General Health and Sanitation	24,000	24,000	23,000	1,000
Social Services	10,000	16,480	16,480	
Recreation and Culture	32,173	33,673	28,661	5,012
Roads	5,000	5,000	25	4,975
Airports	5,000	5,000		5,000
Debt Service	162,000	162,000	161,144	856
Capital Projects	10,000	10,000		10,000
Administration	102,617	255,078	1,909	253,169
Total Expenditures	\$ 678,000	\$ 1,763,280	\$ 976,455	\$ 786,825
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(20,500)	(328,065)	(122,432)	205,633
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(129,500)	(129,500)	(70,000)	59,500
Total Other Financing Sources (Uses)	\$ (129,500)	\$ (129,500)	\$ (70,000)	\$ 59,500
Net Changes in Fund Balances	(150,000)	(457,565)	(192,432)	265,133
Fund Balances - Beginning	803,494	1,111,059	1,111,059	
Fund Balances - Ending	\$ 653,494	\$ 653,494	\$ 918,627	\$ 265,133

PENDLETON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Jail Fund	Ambulance Fund	JAIBG Fund	Emergency 911 Fund
ASSETS				
Cash and Cash Equivalents	\$ 19,583	\$ 21,642	\$	\$ 24,721
Total Assets	<u>\$ 19,583</u>	<u>\$ 21,642</u>	<u>\$ 0</u>	<u>\$ 24,721</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 486	\$ 707	\$	\$ 347
Unreserved:				
Special Revenue Funds	<u>19,097</u>	<u>20,935</u>		<u>24,374</u>
Total Fund Balances	<u>\$ 19,583</u>	<u>\$ 21,642</u>	<u>\$ 0</u>	<u>\$ 24,721</u>

Micro-center Fund	Mental Health Mental Retardation Fund	CDBG Fund	Total Non-Major Governmental Funds
\$	\$ 43,390	\$	\$ 109,336
\$ 0	\$ 43,390	\$ 0	\$ 109,336
\$	\$	\$	\$ 1,540
	43,390		107,796
\$ 0	\$ 43,390	\$ 0	\$ 109,336

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 205

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Jail Fund	Ambulance Fund	JAIBG Fund	Emergency 911 Fund
REVENUES				
Taxes	\$	\$	\$	\$ 179,262
Intergovernmental	52,505	10,689	4,600	51,841
Charges for Services		234,211		
Miscellaneous	331	113		50
Interest	844	366		839
Total Revenues	<u>\$ 53,680</u>	<u>\$ 245,379</u>	<u>\$ 4,600</u>	<u>\$ 231,992</u>
EXPENDITURES				
General Government	\$	\$	\$	\$
Protection to Persons and Property	361,850	331,982		191,951
General Health and Sanitation				
Social Services			5,692	
Administration	10,417	25	363	52,710
Total Expenditures	<u>\$ 372,267</u>	<u>\$ 332,007</u>	<u>\$ 6,055</u>	<u>\$ 244,661</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(318,587)</u>	<u>(86,628)</u>	<u>(1,455)</u>	<u>(12,669)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	\$ 306,600	\$ 70,000		
Total Other Financing Sources (Uses)	<u>\$ 306,600</u>	<u>\$ 70,000</u>	<u>\$</u>	<u>\$</u>
Net Change in Fund Balances	(11,987)	(16,628)	(1,455)	(12,669)
Fund Balances - Beginning	31,570	38,270	1,455	37,390
Fund Balances - Ending	<u><u>\$ 19,583</u></u>	<u><u>\$ 21,642</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 24,721</u></u>

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Micro- center Fund	Mental Health Mental Retardation Fund	CDBG Fund	Total Non-Major Governmental Funds
\$ 29,646	\$ 119,497	\$ 384,251	\$ 298,759
			533,532
			234,211
			494
	1,437		3,486
<u>\$ 29,646</u>	<u>\$ 120,934</u>	<u>\$ 384,251</u>	<u>\$ 1,070,482</u>
\$ 29,646	\$	\$	\$ 29,646
			885,783
	133,500	364,252	497,752
			5,692
		20,000	83,515
<u>\$ 29,646</u>	<u>\$ 133,500</u>	<u>\$ 384,252</u>	<u>\$ 1,502,388</u>
	(12,566)	(1)	(431,906)
			376,600
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 376,600</u>
	(12,566)	(1)	(55,306)
	55,956	1	164,642
<u>\$ 0</u>	<u>\$ 43,390</u>	<u>\$ 0</u>	<u>\$ 109,336</u>

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**PENDLETON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Pendleton County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pendleton County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pendleton County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant – West Pendleton Water Main Extensions CFDA #14.228, Northern Kentucky Hazmat/WMD Response Unit CFDA #97.004.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pendleton County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 U.S. Department of Housing and Urban Development		
Passed-Through State Department for Local Government:		
Community Development Block Grants/ State's Programs-		
West Pendleton Water Main Extensions (CFDA # 14.228)	20020913-1614	\$ 384,251
Microenterprise (CFDA # 14.228)	01-071	29,646
		<hr/>
Total U.S. Department of Housing and Urban Development		<hr/> \$ 413,897
 U.S. Department of Justice		
Passed-Through State Justice Cabinet:		
Juvenile Accountability Incentive Block Grants Youth Community Service Work Program - 2003 (CFDA # 16.523)	2003-JB-BX-0033	\$ 4,600
Total U.S. Department of Justice		<hr/> \$ 4,600
 U.S. Department of Transportation		
Passed-Through State Department for Local Government:		
Recreational Trails Program Pendleton County Recreational Fitness Trails Program (CFDA # 20.219)	RTP 209-03	\$ 35,151
		<hr/>
Total U.S. Department of Transportation		<hr/> \$ 35,151

PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015
(Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs (Continued):		
U.S. Department of <u>Homeland Security</u>		
Passed-Through State Department of Military Affairs		
State Domestic Preparedness Equipment Support Program- Weapons of Mass Destruction Direct to County Program Part I (CFDA # 97.004)	M-03254738	\$ 13,096
Direct to County Program Part II (CFDA # 97.004)	M-03138124	56,896
Northern Kentucky Hazmat/ WMD Response Unit (CFDA # 97.004)	M-04602663	144,084
Northern Kentucky Hazmat/ WMD Response Unit (CFDA # 97.004)	M-03255125	226,492
		<hr/>
Total U.S. Department of Homeland Security		<hr/> \$ 440,568
Total Cash Expenditures of Federal Awards		<hr/> <hr/> \$ 894,216

PENDLETON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pendleton County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Pendleton County Fiscal Court provided federal awards to the following subrecipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grants/State's Programs	14.228	Pendleton Water District	\$ 384,251
	Total CFDA 14.228		<u>\$ 384,251</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 16, 2005. Pendleton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pendleton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pendleton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instance of material noncompliance or other matters that is required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
December 16, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Pendleton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Pendleton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pendleton County's management. Our responsibility is to express an opinion on Pendleton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pendleton County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pendleton County's compliance with those requirements.

In our opinion, Pendleton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Pendleton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pendleton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Peercy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
December 16, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


PENDLETON COUNTY FISCAL COURT

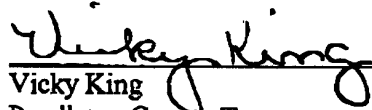
**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Pendleton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Henry W. Bertram
Pendleton County Judge/Executive


Vicky King
Pendleton County Treasurer